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SUBJECT: E.C. REPORT TURNS UP THE HEAT ON BULGARIA

REFS: A) SOFIA 1847 B) SOFIA 1785

11. (U) SUMMARY: The European Commission (EC) in its October 25 monitoring report confirms that Bulgaria should be able to accede to the EU on January 1, 2007, provided that promised reforms are implemented. However, behind this relatively positive overall assessment lies a very harsh assessment of Bulgaria's progress -- or lack thereof -- over the last six months. As the EC said in its accompanying press release, "the jury is still out." The overarching theme is that accession will hinge on Bulgaria's ability to adequately address five areas of serious concern: the fight against organized crime and corruption, protection of intellectual property rights, adequate mechanisms for administration of EU structural-support funds, agriculture/food safety, and the enforcement of motor vehicle insurance requirements (which falls under the freedom to provide services chapter). The assassination of Bulgaria's second-richest citizen, banker Emil Kyulev, on the day following the report's release, constitutes a further severe blow to Bulgaria's image. The government now has six months to get its house in order or face a politically destabilizing delay in Bulgaria's accession. END SUMMARY.

ACCESSION IN 2007 REMAINS UNCERTAIN

12. (U) The European Commission on October 25 approved its latest monitoring report on Bulgaria's preparations for EU accession, warning that Bulgaria is not sufficiently prepared for accession on January 1, 2007. Even though the report gives a positive appraisal of developments in Bulgaria--identifying 50 percent of all areas monitored as non-problematic--the EC Commissioner responsible for enlargement, Olli Rehn, expressed harsh criticism and serious concern for areas representing about 10 percent of the requirements for accession. Regarding the harmonization and implementation of EU laws and standards, the report identifies three stages of preparedness: non-problematic areas; areas where increased efforts are needed and the authorities need to accelerate the pace of reforms; and areas of serious concern, which will require decisive action to be ready for accession.

13. (U) In the report, Rehn draws special attention to the Bulgarian government's inaction in fighting organized crime and corruption, expressing the EU's concern that to date there have been no corruption trials involving high-ranking public officials despite its widespread prevalence. (Brussels' criticism that Bulgaria has failed to combat organized crime was vividly illustrated by the shooting of the controversial and politically well-connected banker, Emil Kyulev, on the day following the report's release (ref A).) The report makes it clear that unless the Bulgarian government takes immediate and decisive corrective action on the problematic areas, it will not be ready for accession in 12007. The report identifies five areas of serious concern where Bulgaria falls short on implementing its obligations:

--Justice and Home Affairs (JHA): Serious concerns remain in relation to Bulgaria's preparation for implementing the acquis in area of Schengen and external borders, the fight against fraud and corruption, police cooperation, and the fight against organized crime.

--Protection of intellectual and industrial property rights: Border controls should be considerably strengthened and coordination between customs, police and the judiciary and inter-agency cooperation improved.

--Agriculture: Shortcomings in setting up the paying agency (to channel EU funds) and the integrated administration and control system, as well as the common market organization for milk and animal by-products; the veterinary control system (identification and registration of animals, the establishment of border inspection posts); and animal diseases control.

--Under "freedom to provide services," the report points to weak enforcement of rules on motor vehicle insurance.

--Regional policy and structural instruments: There are serious concerns in relation to institutional structures and in particular with regard to administrative capacity and in the area of financial management and control.

NEXT FEW MONTHS WILL BE DECISIVE

14. (U) The EC report calls on the Bulgarian government to muster the political will to undertake necessary reforms, urging special attention to implementation and enforcement. A number of high-level EU officials have stressed that Bulgaria is now in the most difficult phase of the pre-accession process; it is not simply a question of adopting new legislation, but rather implementing it. The European Commission has pledged its support for the Bulgarian government's efforts to prepare for accession, committing pre-accession assistance of 545 million euros for 2006.

15. (U) The EC has explicitly warned the Bulgarian government that it could delay accession if Bulgaria fails to stick to its accession commitments. Olli Rehn has clearly stated that if serious shortcomings remain he would not hesitate to propose invoking the safeguard clause, which could delay accession by one year. To ensure compliance with accession commitments, the EC has started an intensive monitoring process through peer reviews and warning letters. The EC will prepare and release the final monitoring report in April/May 2006, which will contain the EC's recommendation in favor or against 2007 admission.

MEETING THE REFORM CHALLENGES

16. (U) Despite criticism by the European Commission, the EC report has provided the government with a clear idea of what Brussels' expectations are and what challenges lie ahead. Representatives of the governing coalition accepted the EC's criticism as fair and asserted that the Bulgarian government has the political will and expertise to push forward necessary reforms. European Affairs Minister Meglena Kuneva underlined that particular perseverance and support will be needed in the sectors of Interior Minister Rumens Petkov, Justice Minister Georgi Petkanov, Finance Minister Plamen Oresharski and Agriculture Minister Nihat Kabil. Foreign Minister Ivaylo Kalfin said he accepts the report as a goodwill criticism of what has to be done and asserted that Bulgaria can comply with the EC recommendations in a timely manner by spring 2006. Opposition parties are focusing on the significance of the EC's criticism, using the report to raise doubts about the coalition's ability to implement necessary reforms and to highlight the danger of a potential delay of Bulgaria's accession.

17. (SBU) COMMENT: The coalition government of Prime Minister Sergey Stanishev has made EU accession by January 2007 its number one priority. Although the pace of EU reforms suffered during the summer during protracted negotiations over forming a new government, the coalition (which has a two-thirds majority in parliament) had been working overtime to pass as much EU-related legislation as possible before this month's report. In its two months in office, the Stanishev coalition has passed at least 25 laws related to EU accession. However, as the Commission report points out, the real test for Bulgaria will be in implementation, and the latest brazen broad-daylight contract hit in Sofia spotlights Bulgaria's most conspicuous area of failure in that regard. In the meantime, EU accession will remain the glue holding together an otherwise potentially fractious coalition here. Any delay of Bulgaria's EU accession will shake political stability in Bulgaria to the core. END COMMENT.